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SUBJECT: SCENESETTER: CODEL BURTON JANUARY 12-13 VISIT TO PANAMA

1. (U) This message is sensitive but unclassified. Please protect accordingly.

2. (SBU) Embassy Panama extends its warmest welcome on your upcoming visit to Panama. You will have the opportunity to review a wide range of issues, including bilateral security and the economic/trade environment. Your visit follows the highly successful visit by President and Mrs. Bush on November 6th and 7th, 2005 as well as recent visits by DEA Administrator Karen Tandy (June 20-22, 2005), a USG inter-agency delegation (September 28-30, 2005) to discuss U.S.-Panama cooperation on Panama's Secure Trade and Transportation Initiative (PST & TI), and FBI Director Muller (October 27-28, 2005).

3. (SBU) As the government of President Martin Torrijos enters its second year in office, your January 12-13 visit to Panama can help to strengthen our already excellent bilateral relationship. Elected as a modernizing, anti-corruption reformer by the largest post-1989 plurality on record (47% of the vote and 41 out of 78 legislative seats), Torrijos has made clear that his most important foreign policy priority is relations with the United States. He also has acted to deepen our two countries' mutual focus on counter-terrorism capabilities, combating international criminal networks, and expanding trade and investment. Your visit coincides with the ninth (and possibly final) round of U.S. - Panama negotiations on a Free Trade Agreement (FTA) in Washington.

Panama Canal Expansion -----

4. (SBU) The Torrijos team sees Canal expansion as a top priority. The proposed Canal expansion project to construct a third set of locks could cost \$8 billion and take 8-10 years to complete. The GOP expects the project will be a transforming event for Panama that will provide jobs and set the tone economically for years to come. Given growing trade between East Asia and the U.S. eastern seaboard, the expansion is central to maintaining the Canal's future viability and is expected to be financed through a combination of Canal revenues, new user fees, and bridge loans. However, Panama's constitution requires a national referendum to approve the idea. This referendum could occur in late 2006 or 2007. A September 2005 CID-Gallup poll showed that a majority of Panamanians would vote in favor of Canal expansion, although the outcome of a referendum cannot be predicted.

Panama Canal Stewardship -----

5. (SBU) Since the 1999 handover, the Panama Canal Authority (ACP) has proven itself an able administrator, turning the Panama Canal into an efficient and profitable business. During the past five years, the ACP has reduced average Canal transit times, accidents in Canal waters, and has overseen large-scale upgrade and maintenance projects. The ACP also has increased revenues, which in FY 2004, exceeded \$1 billion for the first time and contributed \$332 million to the GOP budget.

GOP Priorities -----

6. (SBU) The Torrijos government's principal priorities are canal and maritime security, economic development, job creation, poverty alleviation, investment, fiscal reform, and government transparency. Torrijos has faced large challenges from the outset: a serious budget shortfall; a near-bankrupt national retirement and medical system (the Social Security Fund); and faltering public confidence in government institutions and the rule of law. Pressures from entrenched interest groups have slowed the Torrijos administration's reform plans. Torrijos has worked to complete FTA negotiations with the United States, and launch a more activist and "coherent" foreign policy (including closer relations with Western Europe). After a "review" of Panama's relations with Taiwan and China, the GOP has decided to stick with Taiwan.

President Torrijos and a New Generation

17. (SBU) Torrijos has surrounded himself with young, primarily U.S.-educated professionals like himself, and has marginalized "old guard" supporters of former President Ernesto Perez Balladares (1994-99). He has appointed many pro-U.S. technocrats to his cabinet, although they lack experience. Most of the cabinet are respected professionals without excessive baggage from Panama's 21-year military dictatorship or the PRD's anti-U.S. faction.

Poverty: Hampers Economic Prospects

18. (U) At \$4500, Panama's per capita GDP is Latin America's fifth highest. However, Panama's solid GDP growth in recent years (7.6% in 2004, 6% in 2005) and pursuit of trade liberalization have yet to translate into broadly shared prosperity. Panama faces the second-worst income distribution pattern in Latin America, persistent poverty (40% overall, higher than 80% in some rural areas), and stubbornly high unemployment (officially about 12%, with 20-25% underemployment). Moreover, Panama's dollarized economy currently faces the highest rate of inflation (about 3%) the country has seen in the past 23 years, as rising fuel and food prices place greater hardship on low-income Panamanians.

FTA - Ninth Negotiating Round Jan 10-12

19. (SBU) Negotiations on a bilateral FTA began in April 2004 under President Moscoso. To date, eight negotiating rounds (the last one in February 2005) have failed to produce an agreement, mainly due to Panamanian sensitivities in agriculture, such as rice, poultry, and pork. Panama also wants to increase its sugar quota. The Torrijos administration views a bilateral FTA as imperative to attract investment, increase exports, and make Panama competitive with the CAFTA countries. Your visit will coincide with the ninth, and likely final, round of negotiations in Washington.

Security and Law Enforcement Policy

110. (SBU) The Torrijos government is highly focused on Canal and maritime security and combating terrorism and transnational crime, although it has not yet found the resources to adequately patrol Panama's long Caribbean and Pacific coastlines and to secure Panama's porous border with Colombia against guerrilla infiltration. U.S.-Panamanian cooperation in law enforcement and security has steadily improved in recent years. This has led to increasing narcotics seizures, better investigations, active maritime law enforcement, more specialized units, and better detection of money laundering and illicit financial flows. While the USG-GOP relationship is good, Panama's law enforcement institutions are weak and suffer from limited resources and professionalism. On May 12, 2004, the U.S. and Panama signed a Proliferation Security Initiative (PSI) Shipboarding Agreement. Panama gave early political support to the Coalition of the Willing and ratified a bilateral Article 98 Agreement.

Security Cooperation

111. (SBU) The GOP recognizes that securing the Canal and Panama's borders requires a mature, collaborative bilateral relationship. Panamanians are eager to accept mil-to-mil security training and equipment, as was shown during the August 2004 and August 2005 multinational PANAMAX naval exercises that centered on Canal defense. PANAMAX 2005 counted 15 participating nations. The GOP has welcomed an increased number of USG-sponsored Medical Readiness Exercises and other DOD rural humanitarian programs, which construct schools and clinics, and highlight the U.S. military's humanitarian side. New Horizons 2005, in the Azuero Peninsula, received wide and favorable press coverage.

Our Third Border

112. (SBU) The Canal remains an attractive and vulnerable terrorist target, although good Panamanian defense planning and U.S. training and equipment have made any potential terrorist attack more difficult. To protect water resources, the Panama Canal Authority (ACP) has committed to match dollar-for-dollar AID's three-year \$2.5 million integrated watershed management program. Despite significant progress, Panama continues to be an important transit point for drug smugglers, money launderers, illicit arms merchants, and undocumented immigrants heading north.

Maritime Security

113. (SBU) The GOP is acting to end abuses in Panama's open ship registry and mariner identification documents. Panama's ship registry, the world's largest, comprises one-quarter of the world's ocean-going fleet (5,525 large commercial vessels). About 13% of the U.S. ocean-going cargo transits the Canal each year. Panama's seafarer registry currently licenses over 264,000 crew members. Port services grew dramatically from about 200,000 containers per year in the early 1990s to 2 million by 2003. Panama now boasts the leading complex of port facilities in Latin America. In response to our homeland security concerns, the Torrijos Administration is working to greatly improve security and transparency in documenting ships and the crews that work on them. We are actively discussing with GOP counterparts ways in which we can enhance maritime security through more robust information sharing.

Anti-Corruption

114. (SBU) After campaigning on a "zero-corruption" platform, Torrijos has run a notably more honest government than his predecessors. In October 2004 Torrijos replaced the controversial Supreme Court president, Cesar Pereira Burgos, who had passed retirement age. Controversy over corruption within the Supreme Court continues to attract popular interest, especially after the USG revoked the visa of Supreme Court Magistrate Winston Spadafora in late November. Torrijos' December 2005 appointments to replace two outgoing Supreme Court Justices were generally well-received.

115. (SBU) At the end of September 2005, a commission that President Torrijos formed in March to make proposals on justice sector reform released its detailed report and recommendations. The Embassy supports that effort, and good governance activities directed toward judicial reform, civic education, business ethics, and strengthening the anti-corruption prosecutors' institutional capacity.

Visa Revocations

116. (SBU) An important element of the Embassy's Good Governance initiative is its visa revocation program. Based on Embassy recommendations, the State Department in summer 2004 revoked the U.S. visas of two former senior GOP officials, which provoked a spate of mostly favorable press commentary and huge support (85% according to one poll) from average Panamanians. A third visa, of former Maritime Authority Director Bertilda Garcia, was revoked in early March, 2005. In December, 2005 the visa of sitting Supreme Court Justice Winston Spadafora was revoked under section 212(f) of the Immigration and Naturalization Act based on credible allegations of corruption, sparking considerable controversy. Several other corrupt officials have lost their visas for money laundering or related issues and we are ever alert to ensure that other corrupt officials who have harmed USG interests may not travel to the United States.

Macroeconomic Climate

117. (U) Panama's approximately \$14 billion economy is based primarily on a well-developed services sector that accounts for roughly 80% of GDP. Services include the Panama Canal, banking and financial services, legal services, container ports, the Colon Free Zone (CFZ), and flagship registry. Panama also maintains one of the most liberalized trade regimes in the hemisphere. U.S. bilateral trade with Panama came to \$2.1 billion in 2004. U.S. exports were \$1.8 billion and imports were \$316 million in 2004. The stock of U.S. Foreign Direct Investment (FDI) is approximately \$20 billion. U.S. FDI is primarily concentrated in the maritime, energy and financial sector.

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